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C O N F I D E N T I A L SECTION 01 OF 02 RIYADH 001441

SIPDIS

DEPT FOR E:U/S HORMATS  
DEPT FOR NEA/ARP  
DEPT PASS TO USTR

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TAGS: [ECON](#) [ETRD](#) [EINV](#) [EFIN](#) [SA](#)  
SUBJECT: GCC ANXIOUS FOR GREATER COOPERATION, COORDINATION  
WITH U.S.

Classified By: Deputy Chief of Mission Susan L. Ziadeh for reasons 1.4  
(b) and (d)

#### Summary

1. (C) During an extremely positive meeting on October 28, the GCC's lead official for international economic relations expressed a strong interest in working with the U.S. on trade issues and solicited our assistance in developing harmonized financial regulations. He highlighted some difficulties that have arisen within the GCC as a consequence of our FTAs with Bahrain and Oman and described the GCC monetary union as delayed but inevitable. He also said the GCC would welcome a regular economic dialogue with the U.S. End summary.

#### Lack of Trade Agreement Making Life Difficult

2. (C) Econcouns met with Dr. Abdel Aziz Al-Uwaisheg, the Director General of International Economic Relations for the Gulf Cooperation Council (GCC), on October 28 to discuss areas of mutual interest. Al-Uwaisheg discussed three broad levels of cooperation the GCC typically has with its trading partners, starting with a framework agreement that creates a joint cooperation committee. This would typically be followed by free trade agreement negotiations (that Al-Uwaisheg said may or may not lead to a treaty, but always helps the GCC harmonize its regulations). The third is a strategic dialogue, such as the GCC has with China, Turkey, and ASEAN, and is starting with Australia. He suggested this sort of strategic dialogue can be particularly useful in cases where GCC member states are frequently discussing a range of issues with a trading partner. He stressed that the U.S. is the most important trading partner for most GCC countries and said it would be very important to have a regular dialogue with the USG (ideally sub-ministerial). He understood that the U.S. might not be ready for an FTA and suggested that a regular dialogue might afford some of the same opportunities to coordinate trade and investment policies.

3. (C) Addressing the U.S. - GCC trade relationship, Al-Uwaisheg echoed comments made recently by the GCC Assistant Secretary General for Economic Affairs to Assistant U.S. Trade Representative Christopher Wilson (septel) that the U.S.'s FTAs with Bahrain and Oman were making it difficult for the GCC to fully implement its customs union. He said the U.S. and the GCC will need to come to some sort of arrangement to address inconsistencies between these FTAs and the GCC customs union, whether a U.S. - GCC FTA or something less formal. He said the GCC is concerned that, as it stands, Bahrain and Oman could take advantage of the

customs union and funnel all U.S. imports to the others. If this took place, the GCC would have to pursue some kind of remedy, effectively "isolating" them within the GCC.

#### GCC Looking for Financial Regulator Expertise

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¶4. (C) Al-Uwaisheg expressed a strong interest in U.S. assistance in designing an integrated GCC financial sector. He emphasized the need to harmonize financial services regulations and laws in the same way they are moving forward in other sectors, and that "only the U.S." has the expertise they need.

#### Pushing Harmonization in Other Areas

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¶5. (C) Beyond financial reform, Al-Uwaisheg identified similar efforts directed at harmonizing trade laws, accounting regulations, and education policies (the GCC is pushing for all member states to guarantee a 5 percent admissions quota for the residents of other GCC members at state-funded universities). He reported that the GCC would try, at the upcoming GCC summit, to get ministers to approve a measure requiring all GCC states to adopt the same trade law. To date, members have been encouraged, but not required, to do so. The GCC will also introduce measures to harmonize accounting rules at the summit.

#### Monetary Union Slowly Moving Forward

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¶6. (C) On the regionally controversial subject of the GCC monetary union, Al-Uwaisheg said that though Saudi Arabia is the only member to ratify the monetary council legislation, Bahrain, Kuwait, and Qatar have all approved it at the cabinet level. He said Oman and the UAE will eventually have no choice but to join, but that the union will definitely not be complete on schedule (the monetary council created by the legislation will determine the new timeframe). He expected the monetary council would be created by the end of the year. He thought the GCC might complete a monetary union among the four states currently participating by 2013. He noted the most difficult remaining issue was fixing Kuwait's exchange rate with the other three.

#### Comment

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¶7. (C) Al-Uwaisheg was clearly enthusiastic about working with the U.S. on trade issues and financial regulation. This reinforced the clear desire expressed by several GCC officials during A/USTR Wilson's visit to work more closely with us. He also stressed the political importance of closer ties with the U.S. He underscored the disconnect in the fact that the Gulf's leading trade and investment partner is the one with whom the GCC does not have a regular dialogue.

SMITH